

**UNITED STATES DEPARTMENT OF ENERGY
WESTERN AREA POWER ADMINISTRATION**

CENTRAL VALLEY PROJECT

SCHEDULE OF RATE FOR REGULATION AND FREQUENCY RESPONSE SERVICE

Effective:

October 1, 2011, through September 30, 2016.

Available:

Within the marketing area served by the Western Area Power Administration (Western),
Sierra Nevada Customer Service Region.

Applicable:

To customers receiving Regulation and Frequency Response Service (regulation).

Character and Conditions of Service:

Regulation is necessary to provide for the continuous balancing of resources and
interchange with load and for maintaining scheduled interconnection frequency at 60-cycles per
second.

Formula Rate:

The formula rate for regulation includes three components:

Component 1:

<p><u>Annual Revenue Requirement</u> Annual Regulating Capacity (Kilowatt(kW))</p>
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The annual revenue requirement includes: (1) the Central Valley Project generation costs
associated with providing regulation, and (2) the non-facility costs allocated to regulation.

The annual regulating capacity is one-half of the total regulating capacity bandwidths provided by Western under the Interconnected Operations Agreements with Sub-Balancing Authority (SBA) members.

The penalty for non-performance by an SBA customer who has committed to self-provision for their regulating capacity requirement will be the greater of 150 percent of Western's actual costs or 150 percent of the market price.

Western will revise the formula rate resulting from Component 1 based on either of the following two conditions: (1) updated financial data available in March of each year; or (2) a change in the numerator or denominator that results in a rate change of at least \$0.25 per kW month.

Component 2:

Any charges or credits associated with the creation, termination, or modification to any tariff, contract, or rate schedule accepted or approved by the Federal Energy Regulatory Commission (FERC) or other regulatory bodies will be passed on to each relevant customer. The FERC's or other regulatory bodies' accepted or approved charges or credits apply to the service to which this rate methodology applies. When possible, Western will pass through directly to the relevant customer FERC's or other regulatory bodies' accepted or approved charges or credits in the same manner Western is charged or credited. If FERC's or other regulatory bodies' accepted or approved charges or credits cannot be passed through directly to the relevant customer in the same manner Western is charged or credited, the charges or credits will be passed through using Component 1 of the formula rate.

Component 3:

Any charges or credits from the Host Balancing Authority (HBA) applied to Western for

providing this service will be passed through directly to the relevant customer in the same manner Western is charged or credited to the extent possible. If the HBA's costs or credits cannot be passed through to the relevant customer in the same manner Western is charged or credited, the charges or credits will be passed through using Component 1 of the formula rate.

Billing:

The formula rate above will be applied to the regulating capacity bandwidth contained in the service agreement. Billing will occur monthly.

Adjustment for Audit Adjustments:

Financial audit adjustments that apply to the formula rate under this rate schedule will be evaluated on a case-by-case basis to determine the appropriate treatment for repayment and cash flow management.